

Memorandum

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To: CLARK PAULSEN
Chief
Division of Accounting

Date: December 10, 2009

File: P3010-617

JUDY O'DAY
Chief
Division of Human Resources

ORIGINAL SIGNED BY:

From: GERALD A. LONG
Deputy Director
Audits and Investigations

Subject: FISMA Follow-up Review – Part III, Division of Accounting and Division of Human Resources

SUMMARY

The California Department of Transportation's (Department) Audits and Investigations has completed a follow-up review of the issues identified in the report, "Audits of Internal Controls Pursuant to the Financial Integrity and State Manager's Accountability Act of 1983 (FISMA) for the 2006-2007 Cycle." This is a follow-up review and covers findings related to the Division of Accounting (DofA) and the Division of Human Resources (DHR) covered under the Office Revolving Fund (P3010-606), Accounts Receivable Subcycle (P3010-608), and Personnel/Payroll (P3010-605) sections of the FISMA report. The purpose of this review was to determine whether corrective actions have been taken and the reported findings were sufficiently addressed.

The review covered the period of July 1, 2007, to August 13, 2009. Our review was performed to verify that corrective actions to report findings had been completed as stated in the DofA's and DHR's 30-, 60-, 180-, and 360-day status reports. Our verification procedures included interviews, observations, confirmations, review and analysis of established processes, procedures, documents, and testing of supporting documentation provided.

REVIEW RESULTS

Our review disclosed that most of the corrective actions have been completed. However, we identified the following areas where the reported findings were not sufficiently addressed and/or where corrective actions were not fully completed:

1. During our follow-up review, we found that the sample accounts receivable files did not contain all the supporting documents required by the Transaction Procedures Manual (TPM) 98-17, and some of the supporting documents were created after our request. In addition, we noted 4,834 outstanding payroll accounts receivable totaling \$1,605,977 as of April 2009; of which 2,481 (51 percent) are 120 days old, totaling \$804,770; and 1,135 (23 percent) are over three years old, totaling \$466,599.
2. DHR is responsible for clearing salary advances timely and has made some progress since the last audit. Salary advances outstanding from 1993 through 2006 decreased from 191 as of April 2008 to 92 as of March 2009. However, due to limited resources and the volume of salary advances issued, there is still a backlog. As of March 2009, there was a total of 421 outstanding salary advances. TPM 98-06 requires that all salary advances be cleared within 60 days. However, DHR has interpreted the TPM 98-06 and intends to revise it to require collection efforts be initiated within 60 days for all salary advances. In addition, during our testing, we found some supporting documents for the salary advances were missing from the files or created/processed after the documents were requested.
3. DofA developed and implemented check reconciliation procedures based on the prior audit recommendation. However, the procedures are not written. As a result, some procedures were not consistently performed. Specifically, monthly reconciliations of the Manual Check Log have not been performed since September 2008; some of the safe keeper's initials were missing from the Automated Revolving Fund Check Log; and some warrant numbers were not accurately documented.

RECOMMENDATIONS

DHR has provided a response and a plan of action, and we request that DofA prepare a plan of action within 30 days to ensure:

1. Accounts receivable files include all the supporting documents indicated in the TPM 98-17. In addition, DHR clear accounts receivable timely.
2. Outstanding salary advances are cleared timely to comply with TPM 98-06.
3. Development and implementation of written check reconciliation procedures, including monthly reconciliation of the Blank Check Logs to the Manual Check Log and the Automated Revolving Fund Check Log.

CLARK PAULSEN
JUDY O'DAY
December 10, 2009
Page 3

Pursuant to FISMA (Government Code sections 13400 through 13407), the above deficiencies will continue to be reported to the Department of Finance (DOF). Please provide our office with status reports on the implementation of your audit finding dispositions 30, 60, 180, and 360 days subsequent to the date of this letter. If all findings have not been corrected within 360 days, please continue to provide status reports every 180 days until the audit findings are fully resolved.

If you have any questions, please contact Zilan Chen, Audit Supervisor, at (916) 323-7877, or Kevin Yee, Audit Manager, at (916) 323-7929.

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